



# **Corporate Contracting - “It’s Not Just Contracting”**

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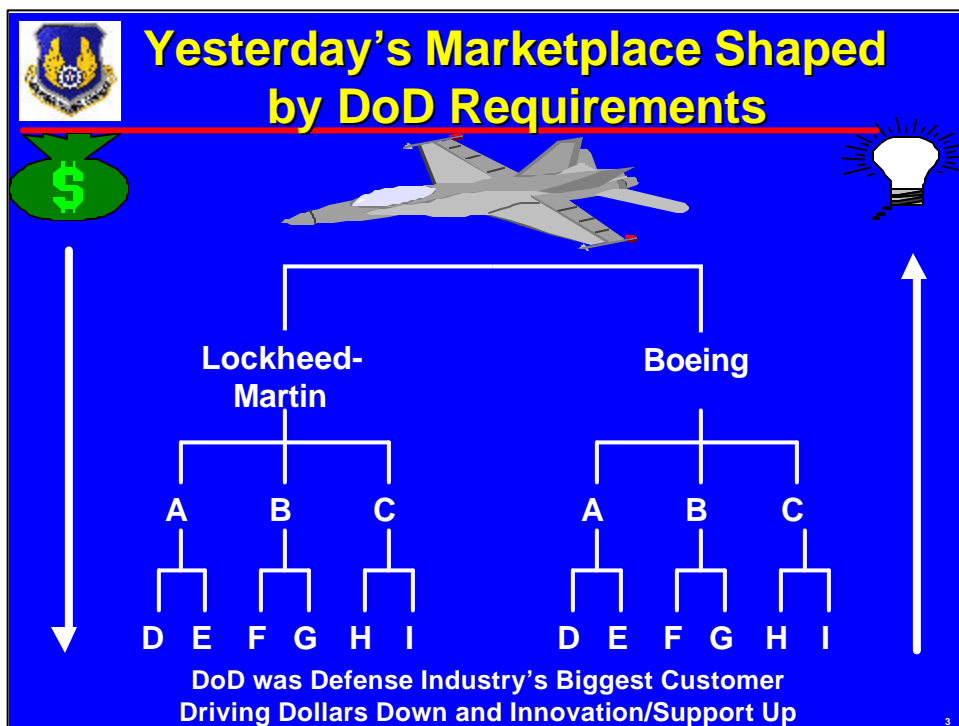
- This training will provide insight into the evolving environment for defense sustainment and the need for change. It introduces the importance of involving the Supply Chain Management Team in the development of a strategy for acquiring spares and repairs that fits this changing environment. Corporate Contracts are among the most important strategies to meet the needs of the SCM team because of the long-term business relationship they establish between the Government and Contractor. The training will provide insight into current status, guidance, training and future plans for Corporate Contracts.



## OVERVIEW

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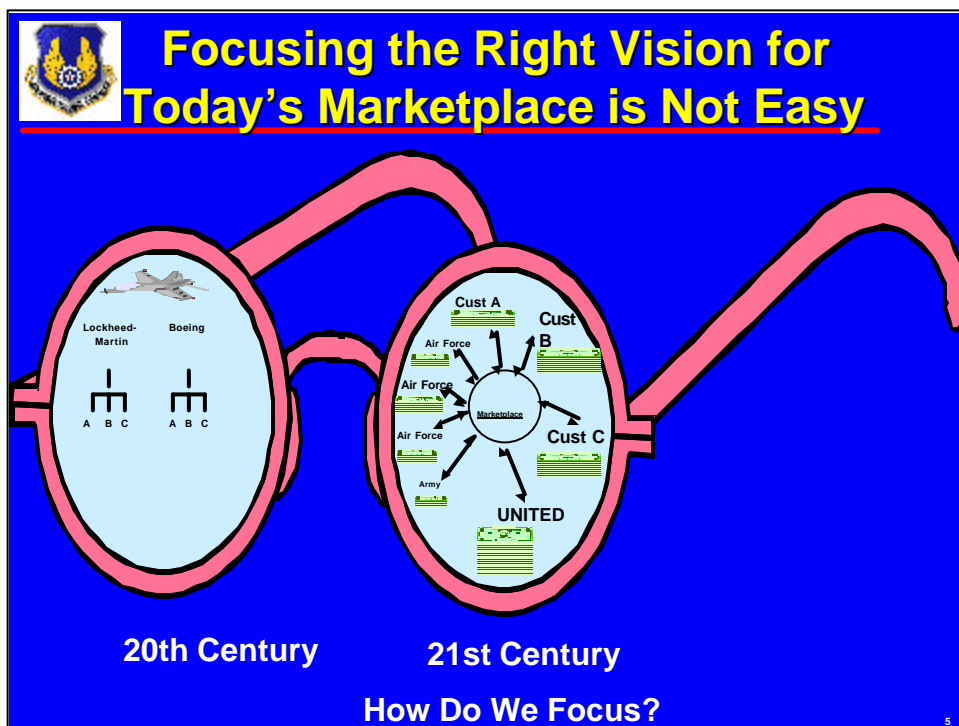
- Discussion of the Marketplace
- Business Relationships and Supply Chain Management
- Corporate Contracts
- Product Environment
- Generating a Corporate Contract
- Current and Planned Efforts
- Being a Big Customer
- Summary



- Many of our business strategies are still based on an out-of-date business model. When DoD had a larger budget and was buying new weapon systems, we could influence the general marketplace by providing large amounts of funding that in turn created many new innovations. We were a force to be reckoned with because we could influence the marketplace.



- However, the marketplace has changed. DoD is no longer the big customer we once were. Our ability to influence the market has been significantly reduced, but our business practices have not changed.
- The effect is that instead of being a large force, we have become several separate small AF customers in the marketplace. That's how the marketplace sees and works with us.



- How do we bring this situation into focus?
- First, knowing what the marketplace looks like and recognizing that we are no longer the biggest customer is not enough.
- We must understand that the marketplace is shaped by all customers and that if we are to participate equally we must move toward an environment where we “Think like a Big Customer” and “Act like a Big Customer.”
- This understanding allows the Air Force to more effectively leverage buying power to reduce costs:
  - A recent DoD IG Audit report on joint repair contracts (which are essentially corporate repair contracts), reported the expectation that a single government contract with multiple requirements is more prone to gain better pricing that multiple contracts with one or few requirements on them.



## Small Customers

Acting as many small customers within the marketplace does not allow the Air Force to fully realize the benefits of the market resulting in -

- Inefficient use of manpower
- Greater weapon system total ownership costs due to longer lead times, fluctuating requirements and lack of insight into forecasts
- Lowered contractor confidence - contractors are unwilling to share risk
- Disincentivizing contractor investment in modernization, infrastructure, and technology refreshment
- Transaction oriented processes rather than performance outcome oriented

6

- This list provides a number of examples of the drawbacks to behaving as a small customer.
- We need to stop transactional, piecemeal type acquisitions and move toward developing effective business arrangements.



## Business Relationships

### The 21st Century Demands Effective Business Relationships

- The Logistics community needs business arrangements with their suppliers that
  - Improve weapon system support
  - Increase production efficiencies
  - Leverage buying power
  - Reduce cycle time

#### Bottom line

**Faster delivery, higher quality, and improved prices**

7

- An answer to this problem is establishing effective business relationships - a widely used and highly successful commercial business practice.
- What are Effective Business Relationships?
- They are relationships that target these four areas for improvement resulting in Faster Delivery, Higher Quality, and Improved Prices.
  - The consolidation of requirements allows the government and contractor to increase their production efficiencies.
  - Total weapon system costs are lowered and we are able to pass these savings to our customers in the form of lower prices.



## Supply Chain Management and Business Relationships

### Supply Chain Management (SCM) Team Develops the Business Relationship

- Supply Chain Manager - leads the team
- SCM is responsible for getting the *“right stuff to the right place at the right time for the right price”*
- SCM Team - composed of all division level managers and industry leaders who support the SCM
  - Within this team the Contracting Division Chief, as the business advisor, works proactively with the SCM team to understand the requirements and provide business and acquisition alternatives and solutions to meet their needs in the most efficient manner

- The business relationship with major suppliers benefits the Supply Chain Managers; therefore, the SCMs should focus their efforts on developing as many business relationships as possible.
- Responsibility for the development of the business relationships rests with the SCM Team.
- The SCM is the leader of the team.
- The Contracting Division Chief, as a member of the team, serves as the business advisor.
- The contractors/suppliers are part of the team.
- Buyers, Contracting Officers, Item Managers, Program Management Specialists, Financial Management personnel and others are responsible for tactical implementation of the business relationship.





## **The Business Relationship Strategy**

•The SCM team develops business relationships with suppliers through

–Strategic Sourcing

»Knowing your marketplace and your suppliers

–Contract Placement

»Selecting the best supplier and contract vehicle

–Performance Management -

»Ensuring best value from the supplier

9

- What is the strategy?
- To meet our customers expectations of faster delivery, higher quality, and improved prices, the long term business relationship is developed considering these three primary elements
  - Strategic Sourcing - talk to chart
  - Contract Placement - talk to chart
  - Performance Management - talk to chart
- Each of these areas affect the other two



## Tools to Implement Business Strategies

### Corporate Contracts - One of the Best Tools Available to Improve Weapon System Support

- Long-term contracts (10+ years)
- With a single contractor
- Pre-established pricing processes
  - Parametric Pricing
  - Formula Pricing Agreements
- Consolidates requirements
  - Sole Source by contractor
  - Competitive by technology or manufacturing processes
  - At a minimum across ALCs, preferably across services and agencies
- Allows for decentralized ordering

Corporate contracts provide the best value to users by being more responsive and less resource intensive.

10

- One of the tools available to improve sustainment is Corporate Contracts.
- Corporate contracts have been used at DLA for years, and have enabled DLA to make more efficient use of their resources. Industry is also using the initiative to accommodate their own reduction in resources.
- They are long term in nature. We recommend 10+ years, however, we recognize this is situation dependent and it may make more sense for 5-7 years.
- The contract should have pre-established pricing processes.
- Each corporate contract consolidates the requirements of several government customers.
- This creates the need for decentralized ordering capability, which allows each customer to place their own orders instead of funneling all orders through a single government ordering office. This removes another layer of bureaucracy, which helps speed up cycle time.
- At a minimum, a corporate contract should consolidate requirements across logistics centers. But, it is highly desirable for corporate contracts to include requirements from other government agencies or services. Essentially government efficiency increases as we take greater advantage of consolidation opportunities. Contractor efficiency increases as well. This in turn should result in lower total weapons system costs and lower prices as we share in these gains.
- **KEY:** Corporate Contracts provide the framework for the business relationship.



## **AFMC Guidance**

- AFMC/CC letter, 23 Sep 98, directed AFMC-wide implementation of Corporate Contracts for the purchase of spares and repairs
  - »ALCs were tasked to identify candidate Corporate Contracts
    - Spares and Repairs
    - Non-competitive and Competitive
- AFMC/CC letter, 2 Sep 99, directed maximum use be made of Corporate Contracts with our major business partners
  - »Arrangements where both partners share risks and rewards in ways that advance our objectives

11

- While other tools are available, they often have a narrower focus and in some cases may only integrate vertically, thereby losing the maximum benefit of leverage.
- Our focus is on both vertical and horizontal integration.
- Corporate contracts avoid the impact of stove piping that results from vertical integration.
- AFMC/CC recognized the value of these arrangements and directed the ALCs to identify candidates.
- We experienced only moderate success, as a result, a year later AFMC/CC issued a follow-up directive to maximize use of Corporate Contracts.
- In April 2000, direction was received to establish quarterly reviews with all of the Air Logistics Centers for current and future Corporate Contract efforts.



## **The AFMC Vision for Corporate Contracts**

**Establish long-term relationships with major contractors by consolidating government requirements on the minimum number of contracts with a single “corporate” contractor**

**Driving to establish business arrangements between government and contractors**

12

- So What's our Vision?
- The AFMC vision is to establish corporate contracts, and the resulting long term business relationship, with all of our primary sustainment contractors for both spares and repairs.
- A single contractor, thus the term corporate, has one contract on which similar government requirements are consolidated. The corporate contract is managed by one government organization.



## Not just a Contract - It's a Business Arrangement

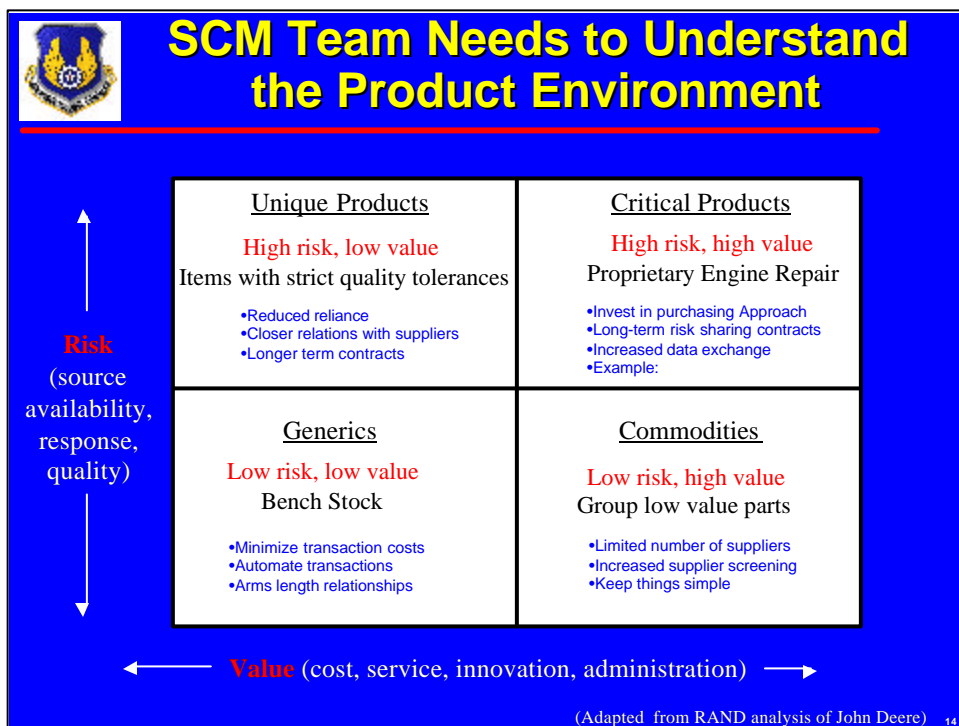
### Elements of the Corporate Contract Business Arrangement

- Sharing the Risk
  - » Material lay-in & advance manufacturing release
  - » Commercial-like financing/payment
- Innovative arrangements
  - » EC/EDI for requisitioning, ordering and paying, Block funding, and performance-based delivery on demand
- Sharing information
  - » Shared forecasting, Field experience data
- Quality management
  - » Reduce surveillance
- Supplier management
  - » Metrics-based performance evaluation - If item is critical to supply chain, may want to adopt industry practice of contractor qualifying alternate sources
  - » Innovative incentive arrangements

**Contracts need to reflect the business arrangement**

13

- What goes into the Business Arrangement?
- In the commercial world, business arrangements are often informal. Unfortunately, informal arrangements are not widely accepted in the government. A corporate contract, because of its long-term nature, provides an excellent framework for establishing somewhat more formal business relationships with major suppliers.
- Key to the success of the business relationship is sharing.
  - Sharing risk: material lay-in, performance based, advance releasing
  - Shared information: forecasting and field experience data enables the supplier to meet customer expectations avoiding costly lead-time away thinking
  - As a result of suppliers taking on more risk, the government is more inclined to reduce oversight and make greater use of innovative financing arrangements.
- Both the Government and the Suppliers should share in the rewards that the business relationship brings:
  - Lower total weapon system costs that can in turn be passed to our customers in the form of lower prices.



- When is a corporate contract appropriate? To answer, it helps to discuss the product environment.
- A product can be a part or a service. Each product has some type of Value to the customer and some type of Risk associated with it's procurement.
- Risk/value axis are a continuum. Each product, or group of products, is placed according to its Risk/Value relationship.
  - Risk looks at things like diminishing sources, materiel scarcity, technology obsolescence, etc. They are constraints that inhibit best value.
  - Value are things like cost, service or availability, innovation, etc. They are the results that the customer values.
- The market situation plays an important role in product placement.
  - e.g. product that requires titanium may be affected by the commercial golf club market.
- We can subdivide the product environment into four quadrants.
- Placement of products (items or services) within the quadrants is determined by their characteristics and the associated risk/value
  - Unique - High Risk, Low Value - are low cost items that may have strict quality tolerances. (some examples are fasteners or seals)
  - Generics - Low Risk, Low Value - could be bench stock that meets commercial standards and is readily available through commercial distribution points (e.g. hardware stores, etc)
  - Critical - High Risk, High Value - engine repair with proprietary processes
  - Commodities - Low Risk, High Value - grouping of parts to increase the value of the relationship.
    - Taken individually, the value of these parts are low. Grouping these parts increases their value.



## Contracting for Corporate Contracts

- Noncompetitive
  - Common factor -- the contractor
    - Combine entire range of products they provide
      - It's OK to combine Apples and Oranges
  - Major sole source contractors (FY98)
    - 12 contractors account for 50% of the value of spares forecast for next 3 years
    - Fewer Repairs are sole source
    - Single corporate interface makes the underlying support seamless: CAGE codes become irrelevant
- Competitive - process and guidance is under development
  - Common factors -- technology or manufacturing process
  - Consolidate by group or class of items
    - Do not inhibit competition
    - Choose an appropriate combination of efforts

15

- Now that we know something about products, we can talk about how we contract for them.
- The first thing to recognize is that we accomplish sustainment contracting in two ways. Either Noncompetitively or Competitively.
- Noncompetitive or sole source has one common factor -- the contractor.
  - All products can be combined onto a single contract. It does not matter if the products are Apples and Oranges because they can be grouped internally within this vehicle. What matters is having one contract vehicle. Terms, Conditions and processes can be tailored to these groups.
  - Many contractors have individual divisions that contract directly with the government. Support relationships can vary greatly. With the advent of the web and continued progress in electronic commerce, a single contractor interface may be more appropriate and most beneficial as long as the contractor support to the government is seamless. In this case, CAGE codes become irrelevant.
- Competitive is far more challenging because of obligations to support socioeconomic program objectives and provide for competition.
  - It is important that to choose an appropriate combination of efforts so as to not limit future competition.
- Use of Past Performance in this environment is critical. It assists in establishing our supplier base by contracting directly with superior suppliers, and allowing them to share in the rewards of the long term relationships.
- Adoption of commercial practices facilitates the development of the business relationship. They provide opportunities for greater integration of the civilian/military industrial base.



## **Our Supplier Base**

### **Major Spares Contractors**

**GEAC  
United Technologies (P&W)  
BF Goodrich  
Boeing  
Raytheon  
Flight Safety  
S&K Electronics  
Michelin Aircraft  
Goodyear Tire  
Orbital Sciences**

### **Major Repair Contractors**

**Boeing  
Lockheed Martin  
Northrop Grumman  
AIL Systems Inc  
Sikorsky  
Heroux  
Mooge  
Parker Hannifin  
Litton Systems  
Teledyne**

\*Spares Based on RPOW data; Repairs Based on FY 99 repair \$ spent

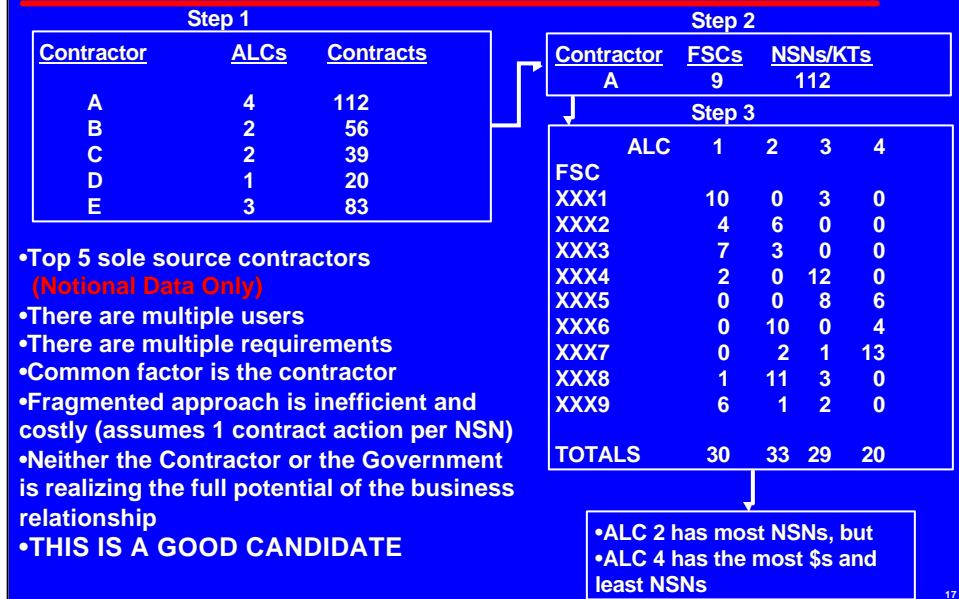
16

- Corporate Contracts can be used to buy both spares and repairs. As mentioned previously, our vision is to have a corporate contract in place with each of our major suppliers.
- What you see here is our list of top FY99 Sustainment Contractors based on dollars spent and then bumped against the three-year forecasted dollars. This is where we think many of our opportunities exist.
- Our analysis of FY99 data indicates that over 50% of our dollars go to these sole source spares contractors. (Over 70% of spares dollars are spent sole source.)
- There are fewer sole source contractors on the repair side, therefore more opportunity exists for competitive corporate repair contracts.





## Generating a Corporate Contract



•Let's take a look at some notional data that an SCM might see if they were looking at their top 5 suppliers.

•Using the information available through the J04, Acquisition Due-In System (ADIS), and through the J001, Air Force Contract Reporting System, we should be able to determine the approximate volume of individual contracting actions and dollars spent with contractors.

•This data makes the following assumptions

- They are sole source sustainment contractors
- Each contract is 1 for 1, that is 1 NSN per contract action

•Step 1 has ranked the contractors, in descending order, with greatest volume of business in terms of actions and dollars.

•Step 2 is where we look at Contractor A, who appears to have the greatest opportunity in terms of number of products and dollars and the number of contracting activities doing business with them. It is here where, initially, the government determines there is a sufficient volume of business to merit investing resources to establish a corporate contract.

•Step 3 charts out the volume of business by dollars and activity producing ALC 2 as the activity with greater activity, however it is ALC 4 who has the most dollars with Contractor A. Either could take the lead, however the center that appears to have the greatest stake may have fewer resources to apply to this effort, and it may make more sense to allow a different ALC to take the lead.

• On the face of it, this appears to be a good candidate. The SCM Team would have to perform an analysis of the Contractor and applicable product environments to determine what benefits should result from the resultant relationship.



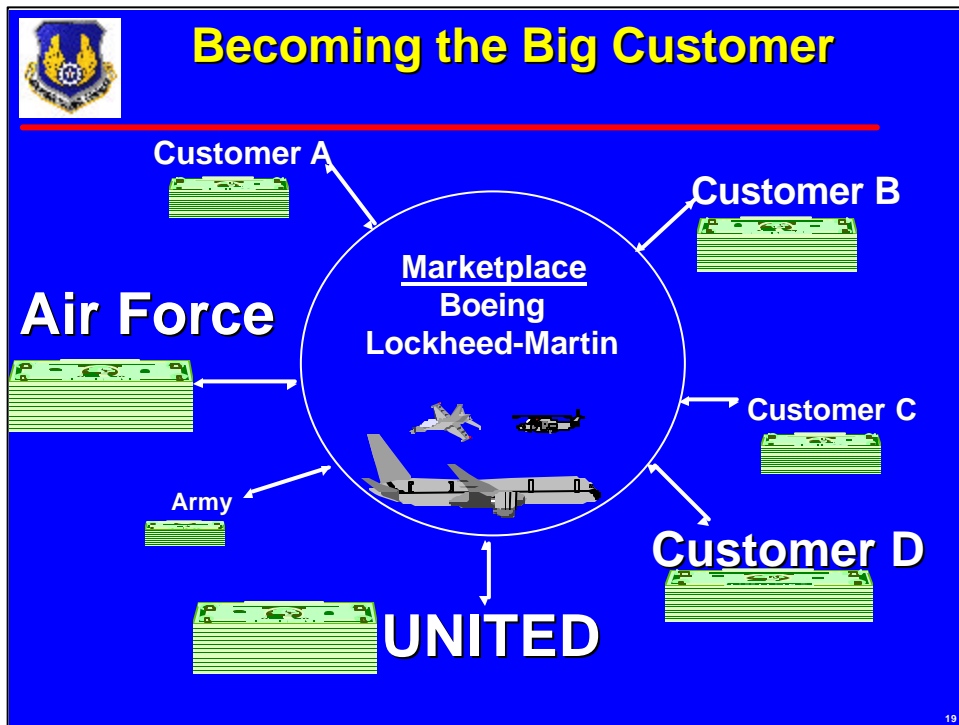
## Corporate Contracts Current and Planned

Center	Contractor	Product	Spare	Repair	Customers
OC-ALC	General Electric	Engines	X		AF, Navy, DLA
OC-ALC	Honeywell (Allied Signal)	Aerospace Equipment	X	X	AF, Navy, Army
WR-ALC	Sikorsky	Gearboxes & Rotor Heads		X	Navy (lead), AF, Army
WR-ALC	Boeing	Airframe	X		AF (WR-ALC, OC-ALC)
OO-ALC	Primex	Automated Test Equip		X	AF (OO-ALC, OC-ALC), DLA, Navy

**The Goal is One Contract Per Supplier**

18

- Now, let's look at our efforts to date.
- The Air Force will not always be the lead for a corporate contract. One of our goals is to make more efficient use of resources, sometimes that may mean putting our requirements on another service or agency corporate contract.
- Oklahoma City, Ogden and Warner Robins ALCs are all implementing corporate spare and repair contracts, either as lead or follow activities. All of these candidates are for sole source sustainment.
- General Electric - F110 Family of engines - \$2B effort, predominately AF with about 94 DLA items. We are also working other initiatives with either the AF/DLA leading.
  - J85/TF34/TF39 - 16 AF NSNs and 1 DLA NSN
  - F404/J85/TF34/T58/T64 - DLA contract
- Honeywell - is a \$3B combined spares and repairs corporate contract consolidating 21 facilities onto single corporate.
  - Will be AFMC's largest and most ambitious corporate contract to date
  - Army/Navy participation on a test basis
  - DLA is pursuing their own effort, which is a 3-segment approach using a Catalog contract, a Build to Order Contract and a Replenishment.
  - KEY: Together with DLA we are developing a common set of Terms and Conditions and Pricing Methodologies
- Navy is the lead for the Sikorsky effort. WR has items on this contract.
- Boeing - WR has the lead for this effort.
- OO is the lead for Primex. Both DLA and the Navy are participating.
- Keep in mind - the vision is that there be a single corporate contract for each AFMC major supplier so many of these efforts employ a phased approach to add future requirements and customers.



•What you have seen today should begin to give you a sense of the benefits that can be experienced from long term arrangements like Corporate Contracts. Let's recap:

- More efficient use of resources.

- Combining multiple requirements on a single contract eases the administrative burden for both the government and contractor significantly reducing the resources needed to maintain the contract.

- Although getting a corporate contract in place is a major undertaking, it is still cheaper to award and administer one contract than to establish multiple contracts. In other words, pay me now, or pay me later.

- Another advantage, once a corporate contract is awarded, is reduced ordering time. Pre-established pricing cuts the administrative lead time.

- Decentralized ordering. There is no middle man. Administrative lead time is further reduced.

- Requirement Consolidation is key. One contracting officer negotiating a potential requirement for \$500 million has more leverage than several contracting officers negotiating individual orders for \$20 thousand.

- Contractors benefit from corporate contracts also. The insight gained through requirements consolidation, along with participating in the forecasting process, helps a contractor exercise greater control over his production. The result is greater efficiencies. The government and contractor should work together to take advantage of these efficiencies to improve production lead-time or responsiveness in the case of performance-based delivery on demand.

- The bottom line: Corporate contracts provide the best value to our users by being more responsive and less resource intensive.



## SUMMARY

- **Corporate contracting is a tool which improves sustainment**
- **Focus is on effective business relationships**
  - **SCM is key to making this work**
- **Rapidly evolving**
  - **Approach for non-competitive is in place**
    - » **However, updating training and guidance to reflect lessons learned and process improvements**
  - **Approach for competitive in process**
  - **Multiple initiatives with significant overlap - working to ensure consistency of approach**
- **HQ Team can assist**
  - **Workshop and training available**

20

- In summary, we've discussed a recommended approach for using corporate contracts.
- It is critical to realize that a corporate contract is a logistics, finance, and contracting initiative.
- It focuses on improvements to the relationship with our suppliers, as well as improving overall weapon system support.
- We anticipate a learning curve, and recognize that in time corporate contracts will prove to be a valuable tool to make our buying processes more efficient for both us and our users.
- We know the corporate contract concept is sound. It has been in use at DLA for years, and has enabled DLA to make more efficient use of their resources.
- Industry is uses the same concept to support their supply chain management initiatives.
- We can help. A workshop and training is available.



## **CONTACT INFORMATION**

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**More Information Available at  
<http://www.afmc-mil.wpafb.af.mil/HQ-AFMC/PK/>**

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21

- You can find our training and guidebook are available at this web site.
  - It is currently being reviewed and updated.
- If you have more specific questions you can contact me directly.